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The Cost of Health Insurance Mandates

For more than 30 years, state legislatures have passed laws driving the cost of health insurance higher. Known as mandated health insurance benefit laws, they force insurers, employers and managed care companies to cover — or at least offer — specific providers or procedures not usually included in basic health care plans.

Recently, the federal government imposed two mandates that affect health insurance policies nationwide.

While actuaries, insurers and health economists agree that virtually all mandates increase the cost of health insurance, the magnitude of their effects has been subject to debate. A new analysis prepared for the National Center for Policy Analysis by the actuarial firm Milliman & Robertson estimates the costs of 12 of the most common mandates and finds that, collectively, they can increase the cost of insurance by as much as 30 percent.

National Center for Policy Analysis Estimated Additional Costs for Certain Benefits, Calendar Year 1997

Benefit	Estimated Additional Annual Cost	
1. Minimum Stay Maternity	less than 1%	<$35*
2. Speech Therapy	less than 1%	"
3. Drug Abuse Treatment	less than 1%	"
4. Mammography Screening	less than 1%	"
5. Well Child Care	less than 1%	"
6. Podiatry	less than 1%	"
7. Papanicolaou (Pap) Smears	less than 1%	"
8. Vision Exams	1% to 3%	$35-$105
9. Chiropractic Treatment	1% to 3%	$35-$105
10. Alcoholism Treatment	1% to 3%	$35-$105
11. Infertility Treatment	3% to 5%	$105-$175
12. Mental Health Care	5% to 10%	$175-$350
Total	15% to 30%	$525-$1,050

* Based on a standard family policy without mandates costing $3,500 per year.

Source: Milliman & Robertson.

The Explosion of Mandated Benefits. Although there were only seven state-mandated benefits in 1965, there are nearly 1,000 today. While many mandates cover basic providers and services, others require coverage for such nonmedical expenses as hairpieces, treatment for drug and alcohol abuse, pastoral and marriage counseling.

These mandates apply only to those health insurance policies controlled by state health insurance laws — usually policies purchased by small businesses and individuals. Most large companies avoid state mandates by self-insuring under the Employee Retirement Income Security Act (ERISA), which exempts self-insured companies from state oversight. However, the federal government's new mandates — banning "drive-through" baby deliveries and requiring that any cap on mental health benefits be the same as the cap on physical health benefits — apply to all insurance. Moreover, Congress appears likely to pass even more mandates in the future.

How Much Do Mandates Increase the Cost of Health Insurance? The Milliman & Robertson analysis of 12 of the most common mandates is based on policies in a representative state.

Assuming that a mandate-free, basic health insurance policy costs a family about $3,500 a year, the study found that [see the table.]:

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- Several of the mandates would increase the cost of a policy by less than $35 each.
- Infertility treatment could increase the cost between $105 and $175 a year.
- Mental health parity, which requires insurers to treat mental illnesses like physical illnesses, could add between $175 and $350 to the cost of a policy.

Taken together, the package of 12 mandates could increase the cost of a family health insurance policy by as much as 15 to 30 percent, or $525 to $1,050 a year. Based on these estimates, we conclude that a small business employing 25 people — with a standard mix of 40 percent single and 60 percent family coverage — could see its premiums rise by $20,000 a year.

Who Pays for Mandated Benefits. Many employees believe their employers pay for the insurance they provide. However, economists recognize that employee benefits are a substitute for wages in the employee's total compensation package. Higher benefits often force employees to take lower wages whether they like it or not. A 1990 survey of the literature by National Bureau of Economic Research economist Olivia S. Mitchell found that the cost of mandated benefits is usually borne by employees in the form of reduced wages, reduced work hours or loss of employment.

The Impact of Mandates. While mandated benefits mean that people with health insurance have more health care options, they also mean that fewer people are insured. When employers who canceled their employees' health insurance policies have been polled on why they did so, the majority claimed that it was because the price was too high.

Lower-income employees are most likely to lose coverage. According to a 1989 study by health economists Gail Jensen and Jon Gabel, mandated coverage increases premiums by 6 to 8 percent for substance abuse, 10 to 13 percent for mental health care and as much as 21 percent for psychiatric hospital care for employee dependents.

The Threat to ERISA. Since 1974, many large- and medium-sized employers have escaped the cost-increasing impact of state health benefit mandates by self-insuring under the Employee Retirement Income Security Act. As a result, thousands of employers have been able to offer health insurance policies tailored to their employees' needs and their companies' budgets.

However, a number of proposals currently before Congress would impose new mandates at the federal level. For example, they would require coverage for mammograms for women under age 50, ban "drive-through" mastectomies and preclude managed care in many instances. Because the federal mandates would apply universally, self-insured companies would come under federal control.

Conclusion. The real threat behind the Congress's newfound interest in mandating health insurance benefits is incremental rather than immediate. One or two federal mandates may not increase the cost of health insurance significantly but, as in the states, once the door is open every special interest will hurry through to besiege the legislature.

When the legislators succumb and the dust settles, health insurance will cost more, employers and individuals will cancel more policies and Congress will face a growing uninsured "crisis" — a crisis largely of its own making.

This Brief Analysis was prepared by NCPA President John C. Goodman and Vice President of Domestic Policy Merrill Matthews Jr.